



OFFICE OF THE
CITY AUDITOR

**A COMPLIANCE AUDIT OF THE CITY
AND REDEVELOPMENT AGENCY INVESTMENT
PROGRAMS FOR
JULY AND AUGUST 1986**

A REPORT TO THE
SAN JOSE
CITY COUNCIL

SEPTEMBER 1986



CITY OF SAN JOSÉ, CALIFORNIA

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(408) 277-4601

GERALD A. SILVA
City Auditor

October 15, 1986

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a report on the July/August 1986 Compliance Review of City Investment Transactions. This report is in accordance with City Charter Section 805(a).

An Executive Summary is presented on the blue papers in the front of this report while the Administration response (Finance Department) is shown on the yellow pages after the Attachments.

I will present this report to the Finance Committee at its October 27, 1986 meeting. If you need additional information in the interim, please let me know. City Auditor staff who participated in the preparation of this report are Nancy Keeley, Dominador Melendez, and Fred Casuga.

Respectfully submitted,

Gerald A. Silva
City Auditor

GS:g
42-10

cc: Gerald Newfarmer, City Manager
Les White, Assistant City Manager
Susan George, Deputy City Manager
Edward G. Schilling, Director of Finance
Deborah Kelly, City Treasurer
Emily Harrison, Chief of Accounting
Jessica Batinich, Treasury Assistant

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EXECUTIVE SUMMARY

In response to an August 5, 1985 Council Finance Committee request, the City Auditor has initiated a process for monthly reviews of investments for the City and the Redevelopment Agency. These reviews have resulted in recommendations to improve the investment program. Finance is taking steps to implement the City Auditor's recommendations to correct the problems noted during the monthly reviews.

Our review of investment transactions for the City and the Redevelopment Agency for July and August 1986 indicates that Finance has generally complied with Investment Policy requirements.

Noncompliance continues in areas which require more in-depth staff work and legal assistance. These areas include evaluating dealer financial condition, and executing formal dealer and safekeeping agreements. Improvements in documentation and control procedures are occurring. Audit staff will continue to monitor such improvements until Finance staff becomes familiar with new procedures. Appendix A contains an overview of this review.

The City Auditor has developed a number of recommendations to enhance compliance with the City's Investment Policy and improve the City's investment program. Our review indicates that Finance is taking steps to comply with prior audit recommendations. Of the thirty recommendations contained in the Reviews of September, October, November/December 1985, January/February 1986, March/April 1986 and May/June 1986 investments:

- o Nineteen have been fully implemented,
- o Two are combined with other recommendations,
- o One is implemented, but procedures need improvement, and
- o Eight are in progress

Refer to Appendix B for an overview of Implementation Status.

*THE JULY AND AUGUST 1986 REVIEW:
-GENERAL COMPLIANCE OCCURRING*

Our review of investment transactions for the City and the Redevelopment Agency for July and August 1986 indicates that Finance has generally complied with Investment Policy requirements.

Noncompliance continues in areas which require more in-depth staff work and legal assistance. These areas include evaluating dealer financial condition, and executing formal dealer and safekeeping agreements. Improvements in documentation and control procedures are occurring. Audit staff will continue to monitor such improvements until Finance staff become familiar with the procedures. Appendix A contains an overview of the results of this review.

Dealer Prequalification

The City Treasury has generally complied with policy requirements for dealer prequalification. Treasury and the City Attorney's Office are still in the process of drafting the dealer service agreement, which includes master repurchase provisions. Treasury anticipates the agreements will be mailed to dealers for review by October 17, 1986.

One dealer, a private partnership, has not furnished a Profit and Loss Statement as required by the Policy. Finance will present alternative procedures to the Private Sector Panel sometime in October 1986.

Purchases

Our review of investment transactions indicates that Finance complied with Investment Policy purchasing requirements during July and August 1986.

During the review of May and June 1986 transactions, we noted that 1) Treasury did not always log the dates confirmations were mailed to dealers, and 2) Redevelopment Agency accounting was not date stamping safekeeping receipts and bank advices. Finance has taken steps to correct these items.

Confirmation mailing dates were entered in the Treasury Log. Of the 38 transactions reviewed, all but 5 were mailed within five working days as required by the Policy. Safekeeping receipts and bank advices for the Redevelopment Agency are now date stamped.

Finally, Finance complied with Investment Policy purchasing requirements during July and August 1986.

Repurchase agreements met Policy collateral requirements. Procedures to document market condition and purchase strategy were followed.

Portfolio Mix

Our review indicated that Finance complied with Policy requirements for portfolio diversification.

Safekeeping

On August 27, 1986, the City entered into an agreement for banking services with Security Pacific National Bank. This agreement includes provisions for safekeeping services. The Redevelopment Agency safekeeping agreement is still being reviewed by Agency legal counsel.

In earlier reviews, we reported that safekeeping receipts were not being reconciled with Treasury confirmation documents. The Accounting Division is now reconciling safekeeping receipts to Accounting's copy of Treasury's confirmation document. Also, Accounting follows up on confirmations and receipts not received within ten days of settlement.

Other Procedures/Controls

Treasury has implemented some improvements in the documentation of cash flow information. However, the accuracy of the cash flow forecast and the usefulness of the documentation for the purpose of a third party review is still limited. Detailed procedures on MONEymax operations have been completed and will be updated as required.

CONCLUSION

Our review of July and August 1986 investment transactions indicated general compliance with the City Investment Policy. Finance continues to make progress on implementing prior audit recommendations. Twenty-one prior recommendations are fully implemented. One newly implemented procedure requires further follow-up and eight prior recommendations are in various stages of implementation.

*FOLLOW-UP ON PRIOR RECOMMENDATIONS:
-MOST RECOMMENDATIONS IMPLEMENTED*

The City Auditor has developed a number of recommendations to enhance compliance with the City's Investment Policy and improve the City's investment program. Our review indicates that Finance is taking steps to comply with prior audit recommendations. Of the thirty recommendations contained in the Reviews of September, October, November/December 1985, January/February 1986, March/April 1986 and May/June 1986 Investments:

- o Nineteen have been fully implemented,
- o Two are combined with other recommendations,
- o One is implemented, but procedures need improvement, and
- o Eight are in progress.

Following is an implementation status report for prior recommendations which require further follow-up. An overview chart showing the implementation status of prior recommendations is contained in Appendix B.

October 1985 Investment Review

Recommendation #1:

Finance comply with Policy requirements to execute formal safekeeping agreements with the City and Redevelopment Agency's Custodial Agents to assure that the interest in securities is adequately perfected. (Priority 1)

Status:

Beginning September 15, 1986, the City's new bank is Security Pacific National Bank (SPNB). The City and SPNB have executed banking services agreement which includes a safekeeping agreement. The Redevelopment Agency safekeeping agreement is still being reviewed by Agency legal counsel. No target date is established for execution.

Further follow-up is required.

Recommendation #3:

Finance comply with Policy requirements to establish procedures to evaluate and monitor dealer financial condition and execute formal master repurchase agreements and services agreements with dealers. (Priority 1)

Status:

Treasury has completed draft procedures for evaluating financial statements. The evaluation process has begun and will continue as time allows. The City Attorney's Office is reviewing a draft dealer service agreement which includes master repurchase provisions. Finance has been working directly with the City Attorney's Office to finalize the dealer service agreement. Target date for mailing the agreements to dealers is October 17, 1986.

Further follow-up is required.

Recommendation #10:

Treasury document daily investment strategy and purchase decisions. (Priority 2)

Status:

Treasury is becoming more familiar with the new procedures. Significant improvements have been made.

Further follow-up is required.

Recommendation #11:

Treasury segregate the functions of investing funds and receiving investment income. (Priority 1)

Status:

Treasury has implemented an alternative procedure. The Chief of Treasury or a designee not directly involved in placing investments now approve investment-related revenue vouchers.

Further follow-up is required.

November-December 1985 Investment Review

Recommendation #1:

Finance obtain a legal opinion to determine requirements for an independent third party custodian for securities involved in City investments. (Priority 2)

Status:

Finance has ceased executing repurchase agreements with the banks which serve as the safekeeping agents for the City and the Redevelopment Agency portfolios. Pending legislation, SB 2115, may change the requirements of State law. If it is enacted, Treasury will request legal review and the advice of the Private Sector Panel.

The agreement between the City and its new bank for banking services provides that "BANK shall cause those securities safekept at any correspondent depository or depositories of BANK (including any subsidiary of BANK) to be confirmed by the correspondent institution or institutions in order to perfect CITY's interest in the securities held therein". The Redevelopment Safekeeping Agreement is still undergoing legal review.

Further follow-up is required.

Recommendation #2:

Finance incorporate a clause in the proposed City-initiated dealer agreements to supersede any prior service or master repurchase agreements with the dealer. (Priority 2)

Status:

Finance will include the recommended clause in the master repurchase agreement now under review by legal counsel. Target date for mailing the agreements to dealers is October 1, 1986.

Further follow-up is required.

Recommendation #3:

Finance document its Policy interpretations. (Priority 2)

Status:

Finance will have the Policy interpretations documented in final form by October 20, 1986.

Further follow-up is required.

March-April 1986 Investment Review

Recommendation #1:

Finance obtain Private Sector Panel approval of alternative dealer financial information requirements and amend the Investment Policy accordingly. (Priority 2)

Status:

Finance has explored several alternatives to deal with the problems of evaluating firms such as a private partnership which would not provide its profit and loss statement. Finance will propose to the Private Sector Panel that a SEC-registered private partnership be screened on two factors as follows:

- o disclosure of its excess net capital in the notes to the statement of financial condition, and
- o a separate letter from its CPA firm attesting to the fact that Rule 15c 3-1 has been complied with and the dealer's internal systems and controls have no material inadequacies. Rule 15c 3-1 states that a dealer's liquid capital, reduced by its measured risk, must exceed the dealer's obligations to its customers on a continuous basis.

The Private Sector Panel will meet sometime in October, 1986 to consider these alternative dealer financial information requirements.

Further follow-up is needed.

Recommendation #2:

Finance include in the Investment Procedures specific instructions regarding all Policy provisions. These instructions should address 1) all required dealer financial information requirements 2) dealer acknowledgement of the City's Investment Policy 3) pre-formatted wire instructions for banks and 4) instrument and issuer ratings. (Priority 2)

Status:

The Treasurer has issued instructions to staff on issuer and dealer prequalification including 1) all required dealer financial information requirements, 2) dealer acknowledgement of the City's Investment Policy, 3) pre-formatted wire instructions for banks, and 4) instrument and issuer ratings. Incorporation of the instructions into the Investment Procedures is targeted for October 20, 1986.

Further follow-up is required.

CITY OF SAN JOSE - MEMORANDUM

TO: Honorable Mayor and City Council FROM: Edward G. Schilling
Director of Finance

SUBJECT: RESPONSE TO AUDITOR'S JULY/AUGUST DATE: October 14, 1986
1986 COMPLIANCE REVIEW

APPROVED

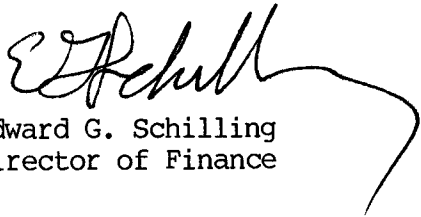
DATE

BACKGROUND

The July/August Investment Program Compliance Review contains no new findings or recommendations. The substance of the Review is an updated status report on the Finance Department's implementation of the thirty recommendations which have been made by the City Auditor over the past year.

The Finance Department agrees with the attached Report's assessment of the Investment Program.

Respectfully submitted,


Edward G. Schilling
Director of Finance

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CITY AUDITOR

APPENDIX A

SUMMARY OF COMPLIANCE QUESTIONS FOR REVIEW OF JULY 1986 AND AUGUST 1986 INVESTMENT TRANSACTIONS OF THE CITY AND THE REDEVELOPMENT AGENCY

<u>Compliance Question</u>	Based on Sample Review of Finance Documentation Did all Transactions Meet Criteria?	
	<u>July 1986</u>	<u>August 1986</u>
A. PREQUALIFICATION OF DEALERS		
1. Is the Dealer (1) on the list of Government Security Dealers Reporting to the Market Reports Division of Federal Reserve, or does the dealer meet the required Keefe, Bruyette and Woods rating?	YES	YES
2. Has the Dealer or Bank filed an acknowledgement of receipt and review of the City's Investment Policy with Treasury?	YES	YES
3. Have Financial Statements been filed with Treasury?	YES	YES
4. Do the Financial Statements include a Balance Sheet and a Profit and Loss Statement?	NO(2)	NO(2)
5. Are the Financial Statements current?	YES	YES
6. Has Treasury reviewed the Financial Statements?	NO	NO
7. Has a Services Agreement been executed?	NO	NO

(1) Includes banks and savings and loans acting as dealers. Treasury accepts a Keefe, Bruyette and Woods rating of "B", or "C" for selected major California banks, in lieu of primary dealer status for banks and savings and loans.

(2) This exception is due to one dealer, a private partnership, which did not provide Profit and Loss statement. Finance will present alternatives to the Private Sector Panel in October 1986.

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SUMMARY OF COMPLIANCE QUESTIONS FOR REVIEW OF JULY 1986 AND AUGUST 1986 INVESTMENT TRANSACTIONS OF THE CITY AND THE REDEVELOPMENT AGENCY

Based on Sample Review
of Finance Documentation
Did all Transactions
Meet Criteria?

<u>Compliance Question</u>	<u>July 1986</u>	<u>August 1986</u>
B. PROVISIONS APPLYING TO ALL PURCHASES		
1. Purchase is of an approved instrument?	YES	YES
2. Purchase Maturity is within policy limits for instrument?	YES	YES
3. Wire Transfer of funds initiated by employee other than employee initiating investment?	YES	YES
4. Wire Transfer of funds carried out according to the terms of preformatted Wire Transfer letter?	YES	YES
C. PORTFOLIO MIX		
1. Is within Policy limits for category of instruments?	YES	YES
2. Total with a single issuer, other than government issues:		
a) Is within 10% of total portfolio, unless an overnight repo?	YES	YES
b) For uninsured-uncollateralized issues, is within 5% of total portfolio?	YES	YES
D. TIME DEPOSITS - BANKS AND SAVINGS AND LOANS		
1. Bank or savings and loan is located in San Jose area (Santa Clara County)?	NONE	NONE

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		Based on Sample Review of Finance Documentation Did all Transactions Meet Criteria?	
<u>Compliance Question</u>		<u>July 1986</u>	<u>August 1986</u>
2.	If not San Jose area, is it a minority bank?	NONE	NONE
3.	Is a Contract for Public Funds Deposit on file?	NONE	NONE
4.	Is a Waiver for Collateralization on file (for insured portion)?	NONE	NONE
5.	For uninsured portion (over \$100,000), is the deposit with a bank or savings and loan with a Keefe, Bruyette and Woods rating of "B" or better, unless a "selected California bank" (Bank of America or Wells Fargo) rated "C" or better?	NONE	NONE
E. U. S. GOVERNMENT AGENCY ISSUES			
1.	Is issue by one of the following: o Federal Farm Credit Bank; o Federal Home Loan Bank (including FHLMC) or o Federal National Mortgage Association?	YES	YES
F. REPURCHASE AGREEMENTS			
1.	Collateral is U.S. Treasury or Government Agency issue approved for purchase by Policy?	YES	YES
2.	If overnight, collateral is equal to 100% of the repurchase agreement's face value?	YES	YES

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SUMMARY OF COMPLIANCE QUESTIONS FOR REVIEW OF JULY 1986 AND AUGUST 1986 INVESTMENT TRANSACTIONS OF THE CITY AND THE REDEVELOPMENT AGENCY

		Based on Sample Review of Finance Documentation Did all Transactions Meet Criteria?	
<u>Compliance Question</u>		<u>July 1986</u>	<u>August 1986</u>
3.	If other than overnight, collateral is marked-to-market on a daily basis and maintained equal to 100% of the repurchase agreement's face value; or is sufficiently in excess of the repurchase agreements face value?	NONE	NONE
G.	REVERSE REPURCHASE	NONE	NONE
H.	BANKER'S ACCEPTANCES		
1.	Is the issuer a bank or savings and loan with a Keefe, Bruyette and Woods rating of "B" or better, unless a "selected major California bank" (Bank of America or Wells Fargo) rated "C" or better?	YES	YES
I.	NEGOTIABLE CERTIFICATES OF DEPOSIT		
1.	Is the issuer a bank or savings and loan with a Keefe, Bruyette and Woods rating of "A/B" or better?	NONE	NONE
J.	COMMERCIAL PAPER		
1.	Is this a domestic corporation?	YES	YES
2.	Does this institution have the highest rating by Moody's or Standard and Poor's?	YES	YES
3.	Does this institution have total assets of \$500,000,000 or more?	YES	YES
4.	Does this institution have an "A" rating or higher on its own indebtedness other than its commercial paper?	YES	YES

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SUMMARY OF COMPLIANCE QUESTIONS FOR REVIEW OF JULY 1986 AND AUGUST 1986 INVESTMENT TRANSACTIONS OF THE CITY AND THE REDEVELOPMENT AGENCY

<u>Compliance Question</u>	Based on Sample Review of Finance Documentation Did all Transactions Meet Criteria?	
	<u>July 1986</u>	<u>August 1986</u>
K. SAFEKEEPING-TREASURY PROCEDURES		
1. Person initiating release of securities is not same person initiating sale?	YES	NONE
2. Written confirmation for release of City-owned securities was transmitted to Safekeeper within 5 working days of telephone instructions.	YES	NONE
L. SAFEKEEPING - SECURITY/COLLATERAL HELD		
1. Collateral held by a Safekeeping Agent under the terms of a Safekeeping Agreement with the City?	NO	NO
2. For securities serving as collateral for a repurchase agreement which are not held by a Safekeeping Agent, are the securities held by a third party custodian with a Safekeeping Agreement with the City?	NONE	NONE
3. For uninsured/collateralized Time Deposits in a savings and loan, is collateral held by the Federal Home Loan Bank?	NONE	NONE

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SUMMARY OF COMPLIANCE QUESTIONS FOR REVIEW OF JULY 1986 AND AUGUST 1986 INVESTMENT TRANSACTIONS OF THE CITY AND THE REDEVELOPMENT AGENCY

Based on Sample Review
of Finance Documentation
Did all Transactions
Meet Criteria?

<u>Compliance Question</u>	<u>July 1986</u>	<u>August 1986</u>
4. For uninsured/collateralized Time Deposits in a bank, is collateral held in the City's name in:		
a) The issuing banks' trust department, provided the bank has a Safekeeping Agreement with the City, or	NONE	NONE
b) In the San Francisco Federal Reserve Bank?	NONE	NONE
M. REPORTING		
1. Exceptions reported to Finance Committee?	YES	YES
<u>OTHER AREAS</u>		
1. Was sale necessary to meet cash needs?	NO	NONE

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS FOR PRIOR RECOMMENDATIONS JULY/AUGUST, 1986 INVESTMENT REVIEW

<u>Recommendation</u>	<u>Status</u>
<u>REVIEW OF SEPTEMBER 1985 INVESTMENTS</u>	
<u>Recommendation #1</u> Treasury staff utilize MONEYMAX in managing the portfolio and making investment decisions by: running a portfolio profile daily or on each day when purchases, sales or maturities occur; and using the portfolio profile report in making investment decisions. (Priority 1)	Implemented
<u>Recommendation #2</u> Treasury staff insure that entry into MONEYMAX is timely and accurate by: entering transaction data on the date that the transaction occurs; running machine numbered, logged and dated batch reports for all entries; and reviewing batch reports for accuracy. (Priority 1)	Implemented
<u>Recommendation #3</u> Finance enhance staff's ability to utilize MONEYMAX by: providing comprehensive training for employees in the use of MONEYMAX; and preparing a simplified instruction manual on the use of MONEYMAX for Finance employees. (Priority 2)	Training will be on going. Implemented.

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS
FOR PRIOR RECOMMENDATIONS
JULY/AUGUST, 1986 INVESTMENT REVIEW

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #4</u> Treasury staff advise Finance management of portfolio status on a timely basis by distributing a copy of the portfolio profile report in Recommendation #1 to the Treasurer, Chief of Accounting and the Finance Director. (Priority 1)	Implemented
<u>Recommendation #5</u> Treasury staff prepare revenue vouchers for maturities, sales and interest payments on the date funds are deposited or payment is received. (Priority 1)	Implemented.
<u>Recommendation #6</u> Treasury staff maintain documentation to verify information used each day in making investment decisions, including the portfolio profile report and all cash flow information. (Priority 2)	Implemented.
<u>Recommendation #7</u> Finance complete procedures regarding prequalification of financial institutions.	Included in Recommendation #3 of the October Investment Review.
<u>Recommendation #8</u> Treasury document reasons for sales.	Implemented.

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SUMMARY OF IMPLEMENTATION STATUS
FOR PRIOR RECOMMENDATIONS
JULY/AUGUST, 1986 INVESTMENT REVIEW

Recommendation

Status

Recommendation #9

Accounting complete improvements
in reconciliation procedures.

This recommendation is
now included in Recomm-
dation #7 and 12 of the
the October Investment Review.

REVIEW OF OCTOBER 1985 INVESTMENTS

Recommendation #1

Finance comply with Policy require-
ments to execute formal safekeeping
agreements with the City and Redevelop-
ment Agency's Custodial Agents to assure
that the City's interest in securities is
adequately perfected. (Priority 1)

Effective September 15,
1986, the City's new bank
is Security Pacific National
Bank (SPNB). The banking
services agreement with SPNB
includes a safekeeping agree-
ment. The Redevelopment
Agency safekeeping agree-
ment is still being reviewed
by agency legal counsel. No
target date for execution
is established. Further
follow-up is required.

Recommendation #2

Treasury staff comply with Policy
requirements to maintain collateral
at 100% of the repurchase agreement's
face value, marked-to-market value
daily, or sufficiently in excess of the
agreement's face value. (Priority 1)

Implemented.

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS FOR PRIOR RECOMMENDATIONS JULY/AUGUST, 1986 INVESTMENT REVIEW

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #3</u> Finance comply with Policy requirements to establish procedures to evaluate and monitor dealer financial condition and execute formal master repurchase agreements and services agreements with dealers. (Priority 1)	Evaluation procedures are in draft form. Evaluations started and will continue as time allows. City Attorney's Office is reviewing a draft dealer service agreement which includes master repurchase provisions. Finance Director has been working directly with the City Attorney's Office to finalize the dealer service agreements. Target date for mailing agreement to dealers is October 17, 1986.
<u>Recommendation #4</u> Treasury establish guidelines for repurchase agreements which 1) allow substitution of securities only on an exception basis, and 2) limit the number of securities used as collateral. Treasury document reasons for exceptions to the guidelines. (Priority 1)	Implemented.
<u>Recommendation #5</u> Finance obtain clarification from the Private Sector Investment Committee regarding the issues of repurchase agreement collateral, issuer percentages, and financial institution qualifications. (Priority 2)	Implemented.

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS
FOR PRIOR RECOMMENDATIONS
JULY/AUGUST, 1986 INVESTMENT REVIEW

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #6</u> Finance include in its Monthly Investment Report all investments which do not comply with Policy provisions. Finance should indicate which investments are subject to on-going review for potential sale. (Priority 2)	Implemented.
<u>Recommendation #7</u> Accounting ensure that safe-keeping receipts are promptly received and reconciled. (Priority 1)	Implemented.
<u>Recommendation #8</u> Treasury establish data entry standards to ensure the accuracy of MONEymax entry, including adequate issuer identification. (Priority 1)	Implemented.
<u>Recommendation #9</u> Treasury enter the dealer's name and securities held as collateral for repurchase agreements into the MONEymax system. (Priority 1)	Implemented.

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS FOR PRIOR RECOMMENDATIONS JULY/AUGUST, 1986 INVESTMENT REVIEW

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #10</u> Treasury document daily investment strategy and purchase decisions. (Priority 2)	Implemented. Requires further monitoring.
<u>Recommendation #11</u> Treasury segregate the functions of investing funds and receiving investment income. (Priority 1)	Alternative procedures implemented. The Chief of the Treasury or designee not involved in investment activities approves revenue vouchers. Further follow-up required.
<u>Recommendation #12</u> Finance establish additional procedures to ensure that controls are functioning and written verification of purchases and sales is complete and timely. Specifically, procedures need to be established to 1) monitor compliance with Policy provisions regarding release of funds or securities 2) provide for 24 hour preparation and mailing of confirmations 3) implement pre-numbered and controlled confirmation documents and 4) date stamp and reconcile dealer, safekeeping, debit and credit advices as received. (Priority 2)	The Control Log for wire transfer of funds has been properly initialed. The revised Investment Policy now allows five working days for transmittal of confirmations. Treasury has started logging dates confirmations are mailed to monitor and document compliance. Beginning September 3, 1986, Finance started using pre-numbered confirmations. Both City Accounting and Redevelopment Agency Accounting are now date stamping receipts and advices. Implemented.

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS FOR PRIOR RECOMMENDATIONS JULY/AUGUST, 1986 INVESTMENT REVIEW

REVIEW OF NOVEMBER-DECEMBER 1985 INVESTMENTS

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #1:</u> Finance obtain a legal opinion to determine requirements for an independent third party custodian for securities involved in City investments. (Priority 2)	Finance has stopped executing repurchase agreements with the bank which safekeeps that portfolio's securities. A new safekeeping agreement has been executed for the City. The Redevelopment Agency Safekeeping Agreement is under review by Agency legal counsel. Further follow-up is required.
<u>Recommendation #2:</u> Finance incorporate a clause in the proposed City-initiated dealer agreements to supersede any prior service or master repurchase agreements with the dealer. (Priority 2)	Finance will include the recommended clause in the master repurchase agreement now under review by legal counsel. Further follow-up is required.
<u>Recommendation #3:</u> Finance document its Policy interpretations. (Priority 2)	Draft was completed and is being reviewed by the Treasury Chief and targeted for completion by October 20, 1986.
<u>Recommendation #4:</u> Finance prepare a compilation and analysis of State and Federal laws applicable to the investment program. (Priority 2)	Implemented.

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS
FOR PRIOR RECOMMENDATIONS
JULY/AUGUST, 1986 INVESTMENT REVIEW

REVIEW OF MARCH-APRIL 1986 INVESTMENTS

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #1:</u> Finance obtain Private Sector Panel approval of alternative dealer financial information requirements and amend the the Investment Policy accordingly. (Priority 2)	Finance will propose to the Private Sector Panel that a SEC-registered private partnership be screened on two factors as follows: 1) disclosure of its excess net capital in the notes to the statement of financial condition, and 2) separate letter from its CPA firm attesting to the fact that Rule 15c 3-1 has been complied with and the dealer's internal systems and controls have no material inadequacies. The Private Sector Panel will meet sometime in October, 1986 to consider these alternative dealer financial information requirements.
<u>Recommendation #2:</u> Finance include in the Investment Procedures specific instructions regarding all Policy provisions. These instructions should address 1) all required dealer financial information requirements 2) dealer acknowledgement of the City's Investment Policy 3) pre-formatted wire instructions for banks and 4) instrument and issuer ratings. (Priority 2)	Treasurer has issued to the staff instructions regarding all Policy provisions. Incorporation of these instructions into the Investment Procedures is targeted for October 20, 1986.

APPENDIX B

SUMMARY OF IMPLEMENTATION STATUS
FOR PRIOR RECOMMENDATIONS
JULY/AUGUST, 1986 INVESTMENT REVIEW

REVIEW OF MARCH-APRIL 1986 INVESTMENTS

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #3:</u>	
Finance report all technical exceptions to the City's Investment Policy to the Finance Committee in its Monthly Investment Report. (Priority 2)	Implemented.

REVIEW MAY-JUNE 1986 INVESTMENTS

<u>Recommendation</u>	<u>Status</u>
<u>Recommendation #1:</u>	
Treasury log the dates confirmations, which outline instructions and details for transactions entered into over the telephone, were mailed to banks.	Implemented.
<u>Recommendation #2:</u>	
Redevelopment Accounting date-stamp dealer confirmations, safekeeping receipts/releases, and debit and credit advices as received. (Priority 2)	Implemented.